

Message Text

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PAGE 01 CARACA 08164 162237Z
ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 /023 W
-----058299 162243Z /65
R 162124Z AUG 77
FM AMEMBASSY CARACAS
TO USDOC WASHDC
INFO SECSTATE WASHDC 8827

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PASS TO OED/MEPD AND OIM

E.O. 11652: N/A
TAGS: BENC, VE
SUBJECT: MAJOR PROJECT: CORPOZULIA STEEL MILL PROJECT

REF: CARACAS 7235

1. THE AMERICAN CONSUL IN MARACAIBO MET WITH CORPOZULIA PRESIDENT CHUMACEIRO LAST WEEK AND DISCUSSED THE STEEL MILL PROJECT. HIS REPORT IS REPRODUCED BELOW. IT IS GENERALLY CONSISTENT WITH AND UPDATES AN EARLIER REPORT BY THE EMBASSY ON THIS PROJECT (CARACAS REFTEL) WHICH ALSO WAS BASED ON A CONVERSATION WITH CHUMACEIRO.

2. HOWEVER, THE EMBASSY MUST COMMENT THAT IT NOW APPEARS MOST LIKELY THAT CHUMACEIRO WILL NOT HAVE HIS WAY INSOFAR AS THE INCORPORATION OF THE EXECUTING AGENCY IS CONCERNED. THE MINISTER OF THE PRESIDENCY, CARMELO LAURIA, TOLD THE AMBASSADOR LAST WEEK FLATLY THAT PRESIDENT PEREZ HAS DECIDED THAT THERE WILL BE A JOINT VENTURE PARTNER VIA A FOREIGN INVESTMENT IN THE EQUITY OF SIDERZULIA (THE NAME GIVEN TO THE TO-BE-FORMED STEEL CORPORATION) AND THAT THIS IS A CLOSED QUESTION. THE FOREIGN INVESTOR COULD MAKE THE EQUITY CONTRIBUTION IN KIND, THAT IS, STEEL MILL EQUIPMENT, AND WOULD HAVE A SUBSTANTIAL VOICE IN PLANT SPECS AND EQUIPMENT SELECTION, ACCORDING TO MINISTER LAURIA. HE INTIMATED THAT A U.S. EFFORT
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IN THIS DIRECTION WOULD BE WELCOME. WE CAN SPECULATE THAT THE PRESIDENT OR OTHER CABINET MINISTERS DO NOT WISH TO SEE ANOTHER SEMI-INDEPENDENT FIEFDOM SIMILAR TO CORPORACION VENEZOLANA DE GUAYANA EMERGE IN THE CATALUNA OF VENEZUELA, MARACAIBO, WHERE VOTING PATTERNS HAVE FAVORED COPEI RATHER THAN THE PARTY IN POWER, AD. IT IS WORTH NOTING AGAIN THAT CHUMACEIRO IS OPENLY A "COPEYANO" AND THAT HIS POSITION PRESUMABLY WOULD BE STRENGTHENED WERE

COPEI TO WIN THE NEXT ELECTION. END EMBASSY COMMENT.

3. FROM AMCONSULMARACAIBO, AUGUST 11, 1977 QUOTE: SUBJECT:
MEMORANDUM OF CONVERSATION WITH CORPOZULIA PRESIDENT FERNANDO
CHUMACEIRO.

1. SUMMARY: THE PRINCIPAL OFFICER PAID HIS FIRST CALL ON
CORPOZULIA PRESIDENT FERNANDO CHUMACEIRO AUGUST 9. THE
PROTOCOLARY NATURE OF THE CALL WAS QUICKLY FORGOTTEN. A LONG
CONVERSATION EVOLVED CONCERNING:

(A) THE "TIMIDITY" OF AMERICAN COMPANIES IN PURSUING CORPOZULIA
BUSINESS.

(B) THE ROLE OF BRITISH STEEL IN THE STEEL PROJECT.

(C) THE NEED FOR CLOSE CONSULTATION BETWEEN PARSONS, BRINKERHOFF
AND BRITISH STEEL REPRESENTATIVES.

(D) PENDING POLICY DECISIONS FACING CORPOZULIA AND THE GOV.

2. CHUMACEIRO STARTED BY SAYING HE WAS "DISAPPOINTED" BY THE
"TIMIDITY" OF U.S. COMPANIES IN PURSUING CORPOZULIA BUSINESS.
EUROPEAN COMPETITORS ARE MUCH MORE COMPETITIVE, MORE "AGRESSIVE."
CORPOZULIA WANTS TO HAVE AS MANY OPTIONS AS POSSIBLE WHEN IT
FINALLY STARTS ACCEPTING BIDS. AMERICAN COMPANIES OBVIOUSLY
HAVE MUCH TO OFFER. THEY SHOULD ESTABLISH CONTACT WITH
CORPOZULIA AS SOON AS POSSIBLE AND MAINTAIN THIS CONTACT.

3. IN RESPONSE TO MY OBSERVATION THAT U.S. COMPANIES FEARED THAT
BRITISH STEEL HAD THE STEEL PROJECT "IN ITS POCKET" CHUMACEIRO
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VIGOROUSLY DENIED THEIR FEARS. BRITISH STEEL IS DRAWING UP
SPECIFICATIONS, AND NO MORE. OBVIOUSLY, BRITISH STEEL WILL DRAW
UP SPECIFICATIONS THAT FAVOR BRITISH EQUIPMENT, IF ONLY BECAUSE
ITS ENGINEERS HERE ARE MORE FAMILIAR WITH IT. FOR THIS REASON
CORPOZULIA HAS ITS OWN ENGINEERS WORKING WITH BRITISH STEEL.
CORPOZULIA WANTS TO KEEP ITS OPTIONS OPEN. IF IN THE FINAL
BIDDING BRITISH EQUIPMENT APPEARS THE BEST CHOICE, THEN SO BE
IT. BUT IF OTHER EQUIPMENT APPEARS MORE SUITABLE, THE CONTRACTS
WILL GO ELSEWHERE. CHUMACEIRO EMPHASIZED THAT U.S. SUPPLIERS
WERE IN NO WAY OUT OF THE RUNNING. CHUMACEIRO OBSERVED THAT
THIS POLICY WAS VERY MUCH IN CORPOZULIA'S INTEREST. AS LONG AS
HE IS PRESIDENT OF THE CORPORATION HE PLANS TO FOLLOW THIS
POLICY.

4. IN ANSWER TO MY QUESTION, HE SAID THAT PARSONS BRINKERHOFF
HAD TO MAINTAIN CLOSE LIAISON WITH BRITISH STEEL. THE PORT AND
STEEL PLANT HAVE TO COMPLEMENT EACH OTHER. OBVIOUSLY, THERE HAS
TO BE LIAISON BETWEEN BRITISH STEEL, CORPOZULIA AND PARSONS,
BRINKERHOFF, AS WELL AS WITH THE MEXICAN TECHNICIANS WHO ARE
ASSISTING IN DRAWING UP SPECIFICATIONS.

5. I ASKED ABOUT A DOCUMENT WHICH DESCRIBED THE PUBLIC AND

PRIVATE SECTOR CONTENT OF THE IRON AND COAL PROJECT. CHUMACEIRO CONFIRMED THAT SUCH A "WORKING DOCUMENT" EXISTED. THE ORIGINAL IDEA AT CORPOZULIA WAS THAT THE PROJECT BE ENTIRELY STATE OWNED FOR FOUR REASONS:

(A) THE PRODUCTION OF THE PROJECT IS GOING TO BE EXCLUSIVELY FOR THE DOMESTIC MARKET. CORPOZULIA DOES NOT BELIEVE THAT THERE WILL BE ENOUGH PROFIT GENERATED TO INTEREST FOREIGN INVESTORS.
(B) THE GOV HAS JUST NATIONALIZED THE PETROLEUM AND STEEL INDUSTRIES. THIS FACT WOULD NATURALLY MAKE ANY POTENTIAL INVESTOR WARY ABOUT PUTTING MONEY INTO A NEW STEEL COMPLEX.
(C) THE V NATIONAL PLAN CONTEMPLATES THAT VENEZUELA WILL BUY BACK OR "RESCUE" AS MUCH STOCK AS POSSIBLE IN VENEZUELAN COMPANIES HELD BY FOREIGNERS OVER A 15 YEAR PERIOD. THIS POLICY WOULD MAKE ANY FOREIGN INVESTOR NERVOUS BECAUSE HE LIMITED OFFICIAL USE

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WOULD HAVE TO SELL HIS STOCK OVER A PERIOD OF 15 YEARS.

(D) THE CARTAGENA AGREEMENT ALLOWS A MAXIMUM FOREIGN PARTICIPATION OF 24 PERCENT.

6. PRIVATE INVESTORS OR "PARTNERS" WOULD ALMOST CERTAINLY HAVE TO BE FOREIGNERS BECAUSE ONLY THEY HAD BOTH THE NECESSARY TECHNOLOGY AND CAPITAL. NEVERTHELESS, THE GOV DECIDED THAT THE CORPOZULIA PROJECT WOULD BE A MIXED ENTERPRISE. FACED WITH THIS DECISION, CORPOZULIA THEN PREPARED THE "WORKING DOCUMENT" TO LAY OUT HOW THE MIXED ENTERPRISE SHOULD BE CONSTITUTED. CORPOZULIA PROPOSED THAT THE ENTIRE PROJECT BE DIVIDED INTO SOME 100 "PACKAGES". SUPPLIERS WOULD BID ON EACH PACKAGE. THE SUPPLIERS WOULD AGREE TO TAKE A PARTICIPATION IN EACH PROJECT OF UP TO 49 PERCENT. PREFERABLY, THE PARTNERS WILL BE "STRONG PARTNERS" SO THAT THEY WOULD TAKE A REAL INTEREST IN THEIR PART OF THE PROJECT. CHUMACEIRO SAID THAT THE WORKING PAPER HAD BEEN PREPARED TAKING INTO ACCOUNT THE VENEZUELAN CONSTITUTION AND THE FACTORS OUTLINED IN PARA 5. HE, PERSONALLY, DOES NOT BELIEVE THAT MANY FOREIGN INVESTORS WILL BE INTERESTED IN SUCH A SCHEME.

7. WHEN THE PRESIDENCY RECEIVED THE WORKING PAPER THE PRESIDENT CONSTITUTED A SPECIAL COMMISSION TO STUDY IT. THE COMMISSION IS MADE UP OF THE MINISTERS OF DEVELOPMENT, ENVIRONMENT AND NATURAL RESOURCES, ENERGY AND MINES, SECRETARIAT OF THE PRESIDENCY, CORDIPLAN THE HEAD OF THE NATIONAL STEEL COMPANY, AND THE HEAD OF CORPOZULIA. THIS COMMISSION WILL STUDY THE WORKING PAPER AND HOPEFULLY COME TO A CONCLUSION BY THE END OF THE YEAR. ONE OF THE OPTIONS IN THE PAPER IS THAT THE DECISION TO CONSTITUTE THE PROJECT AS A MIXED ENTERPRISE BE OVERTURNED. CHUMACEIRO CANDIDLY ADMITTED THAT THIS WAS HIS PREFERENCE. IF THE DECISION STANDS, THEN HE BELIEVES THAT THE COMMISSION WILL ACCEPT THE CORPOZULIA WORKING DOCUMENT.

8. COMMENT: THE IMPRESSION THAT CHUMACEIRO GAVE ME IS THAT THE LIMITED OFFICIAL USE

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WHOLE NATURE OF THE PROJECT IS STILL BEING INTENSELY DEBATED WITHIN THE GOV. THE EVENTUAL COMPOSITION OF PRIVATE AND PUBLIC PARTICIPATION WILL NOT BE DECIDED FOR AT LEAST SEVERAL MONTHS. EVEN THEN, IF PRIVATE FOREIGN INVESTORS DONOT SHOW ENOUGH INTEREST IN A MIXED ENTERPRISE, THEN THE GOV MIGHT BE FORCED AT SOME FUTURE DATE TO MAKE THE CORPOZULIA PROJECT AN EXCLUSIVELY STATE-OWNED OPERATION. FINALLY, AND MOST IMPORTANT FOR POTENTIAL U.S. SUPPLIERS, CORPOZULIA WANTS INCREASED AND CONTINUING CONTACT WITH THEM. NO CONTRACTS HAVE YET BEEN GIVEN ON ANY MAJOR COMPONENT OF THE PROJECT. U.S. SUPPLIERS HAVE AS GOOD A CHANCE OF DOING BUSINESS AS ANYBODY ELSE AT THIS STAGE. END QUOTE.
VAKY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Sent Date: 16-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977CARACA08164
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770295-1130
Format: TEL
From: CARACAS
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770859/aaaabxmg.tel
Line Count: 187
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: cc08635a-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 CARACAS 7235
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1592982
Secure: OPEN
Status: NATIVE
Subject: MAJOR PROJECT: CORPOZULIA STEEL MILL PROJECT
TAGS: BENC, VE
To: COM
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/cc08635a-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009